



## **Economically Distressed Areas Subgroup Interim Report**

### **Subgroup Activity:**

The Economically Distressed Areas Subgroup of the Governor's Economic Development and Job Creation Commission held its first meeting on May 26<sup>th</sup> in Richmond, Virginia. At the first meeting, Subgroup members discussed and approved Subgroup visions and goals and divided responsibilities between its members.

In the interim, staff reached out and met with several stakeholder groups and assisted with research requested by members. Bill Shelton, Director of the Department of Community and Housing Development, researched topics for members which gave a synopsis of economic development issues in distressed areas of the Commonwealth.

The Economically Distressed Areas Subgroup of the Governor's Economic Development and Job Creation Commission held its second meeting on July 8<sup>th</sup> in Richmond, Virginia.

At this meeting, the Subgroup heard presentations from Kelly Harris-Braxton and Jim Regimbal of Virginia First Cities, who discussed the role that Virginia's urban cities play in economic development and offered recommendations on items impacting Virginias' cities. We also heard from Glen Sink, Executive Director of the Virginia Rural Center, who presented information on behalf of the rural community and discussed recommendations and suggestions offered by the Rural Prosperity Commission data.

The Subgroup also heard from Karen Jackson, Deputy Secretary of Technology who gave an overview of Broadband advancement in the Commonwealth, Mike Kaestner from the Virginia Economic Development Partnership who discussed economic development incentives available to Economically Distressed communities, and Peter Su and Scott Parsons with the Virginia Department of Business Assistance (DBA) who talked about the role that DBA's programs play in revitalizing Virginia's hardest hit communities..

Members of the Subgroup then reported on items they were responsible for researching and gave a list of initial recommendations.

The third meeting of the Economically Distressed Areas Subgroup will be held on August 17<sup>th</sup> in Richmond, Virginia.

The Economically Distressed Areas Subgroup has identified a number of stakeholder groups including: Virginia First Cities; the Center for Rural Virginia, National Federation of Independent Businesses; Virginia Municipal League, Virginia Association of Counties, Virginia Agribusiness Council, Virginia Bankers Association, Virginia Housing Development Authority, Virginia Farm Credit Association, Virginia Farm Bureau, Virginia Chamber of Commerce (and local Chambers) and the Virginia Economic Development Partnership.

### **Analysis:**

Traditional incentive programs such the Governor's Opportunity Fund, Virginia Enterprise Zone Program and the Virginia Jobs Investment Program have served Virginia well and should continue to be important tools in Virginia's business recruitment efforts. However, these programs must be adequately funded. Funding for these vital programs has been reduced in recent years and should be restored.

In recent years the Virginia Enterprise Zone Program has not been able to fully meet qualified businesses grant application amounts. In FY 2010, Enterprise Zone grants were pro-rated at 60 cents on the dollar. Virginia must fulfill delivery of "promised" incentives to companies which have delivered on jobs and investments.

The Virginia Jobs Investment Program (VJIP) has historically been one of the major, value-added economic development incentives sought by companies. The number one concern of most expanding businesses and prospects is whether or not they will be able to hire a quality workforce. Not only does the program offset qualifying companies' recruitment and training costs, it also connects them with all available resources to help with their workforce development efforts. VJIP has statewide accessibility, but is especially valuable to distressed communities with a declining manufacturing base.

In 2005, the Virginia Agricultural Enterprise Act was passed; however, the lack of funding has prohibited its implementation. The Department of Agriculture and Consumer Services would establish, as an element of the Office of Farmland Preservation, agricultural enterprise districts upon application by localities with established agricultural or forestal districts, locally designated agricultural enterprise districts, or purchase of development rights programs. "Qualified agricultural businesses" and "qualified farm businesses" located in such districts may apply to the Department for assistance in developing a new business plan and grant funding for up to 50 percent of the associated costs of implementing that plan, up to a maximum of \$500,000.

Several southern states, including North Carolina, Georgia, and South Carolina, have attempted to minimize the competitive disadvantages in economically distressed areas by providing special tax incentives. For example, North Carolina passed the William S. Lee Act in 1996 in order to promote investment and job creation in the less developed regions of the state. It separated the counties into tiers, with job creation and investment tax credits increasing dramatically in a less developed county. This program has received mixed reviews and should be further researched before recommended to Commission.

Several stakeholders have brought concerns about derelict structures to the Subgroup. These vacant structures become a black eye on the community and companies are unwilling to relocate to these communities. While the Virginia Department of Historic Resources administers several historic rehabilitation tax credit programs, additional state incentives should be considered to encourage the rehabilitation of historic buildings in older neighborhoods and commercial districts in localities in Virginia. A direct result of restoring historic buildings and former industrial sites would include job creation, downtown and neighborhood revitalization, improved community appearance, and greater community pride. This program could be modeled after the North Carolina State Mill Rehabilitation Tax Credit or similar programs existing in other states.

A current state program that promotes economic and physical revitalization of historic downtowns and neighborhood commercial districts is the Virginia Main Street program. The Main Street program utilizes a comprehensive, incremental approach to revitalization built around a community's unique heritage and attributes. Using local resources and initiatives, Main Street helps communities develop their own strategies to stimulate long term economic growth and pride in the traditional community center --downtown. This program should be expanded to include additional communities.

A major concern facing Distressed Communities is access to capital. To help address some of the financing issues in distressed regions, the state created Virginia Community Capital, Inc (VCC). Virginia Community Capital is a multimillion dollar non-profit, community development financial institution (CDFI) and banking entity providing innovative loan and investment solutions for affordable housing and economic development projects in Virginia. VCC is a unique banking structure that provides loan capital that is broader than bank lending to projects that have a positive community impact in low- to moderate-income communities in underserved geographies and markets. State support and investment in the Virginia Community Capital will enable Virginia to better reach these underserved populations.

Additionally, the Virginia Small Business Financing Authority (VSBFA) provides funding to Virginia's businesses in support of economic development projects. The VSBFA offers direct revolving loan and loan guaranty programs statewide and focuses heavily on assisting businesses in distressed areas of Virginia. The VSBFA's largest and oldest revolving loan program, the Economic Development Loan Fund, is targeted specifically to assisting businesses and economic development projects in rural and distressed regions of the state.

### **Vision Strategies:**

To put Virginia back on the road to recovery, we must pay attention to the areas that have been the hardest hit. No recovery will be complete until jobs and economic opportunity are available in all parts of Virginia. The McDonnell Administration has already placed a great emphasis on urban and rural communities with the 2010 Legislative Agenda and the appointment of a Deputy Secretary for Rural Economic Development. This Subgroup will develop the next steps to provide new jobs and economic opportunity in distressed areas.

### **Approach:**

This Subgroup will examine existing programs/initiatives (both within the Commonwealth and in other states) and look at ways to improve economic development in both our rural and urban localities and recommend innovative ideas to get people in our hardest hit communities back to work.

**Strategies:**

- I. Develop strategies to expand deployment of high-speed broadband and other infrastructure improvements in economically distressed areas.
- II. Assess state incentive programs can be designed to locate, retain and expand businesses in economically distressed areas
- III. Encourage distressed areas to identify, embrace and promote asset-based economic development opportunities.
- IV. Increase regional collaboration and regional marketing in economically distressed areas.
- V. Promote the revitalization of vacant or underutilized commercial and industrial buildings.
- VI. Determine how development of both traditional and renewable energy resources can be maximized in rural and urban areas
- VII. Consider recommendations on how to expand agri-business opportunities and market Virginia agricultural products across the nation and around the world.
- VIII. Increase access to capital for businesses in economically distressed areas.
- IX. Consider expanding programs like “Return to Roots” to recruit the skilled workforce to support target industries like advanced manufacturing and information technology.
- X. Expand ability of communities to develop and implement strategic economic development projects and initiatives, including strategies to assist and streamline permitting and zoning processes for smaller localities and municipalities.

**Initial Ideas and Recommendations:**

The Economically Distressed Areas Subgroup is taking an all-inclusive approach for ways to improve Economically Distressed communities including legislative action, budgetary action and lastly any action the Governor can issue via Executive Order.

Initial recommendations and suggestions include, but are not limited to:

- 1) Fully fund the states Enterprise Zone grant incentives to avoid proration of awards to eligible companies. As noted above, Virginia currently funds this program at 60%.

- 2) Increase funding for the Governor's Opportunity Fund, a proven tool to enhance economic development in distressed communities.
- 3) Continue to leverage grants from TICR's Tobacco Region Opportunity Fund with GOF and other applicable state and local incentives to attract significant private capital investment and create jobs in distressed areas.
- 4) Increase funding for the Virginia Jobs Investment Program and the Virginia Community College System for their efforts to provide customized recruiting, training services and workforce development programs and examine the effectiveness of "Return to Roots" initiative and provide recommendations to improve and potentially expand it across Virginia. Workforce Development is a critical issue facing economically distressed communities and these programs and institutions provide vital resources to new and expanding companies while strengthening Virginia's competitiveness for economic development projects.
- 5) Consider additional financial or tax incentives that will enhance the economic feasibility of reusing the state's former industrial sites, neighborhood commercial districts and historic downtowns.
- 6) Allocate additional funding for Virginia's Main Street program to enhance the program's ability to help communities develop strategies to stimulate long term economic growth and promote economic and physical revitalization of historic downtowns.
- 7) Determine feasibility of implementing existing Agriculture Enterprise Zone Act.
- 8) Market Virginia Agriculture/Forest products by serving at all state-sponsored events, adequately funding existing promotional programs in VDACS, and including all agri-tourism activities in tourism promotions.
- 9) Ensure higher education opportunities for agriculture, forestry, and veterinary medicine students by finding a solution for accepting more rural students into Virginia Tech and Virginia State University seeking agriculture degrees, and supporting recruitment/retention of large animal veterinarians in rural Virginia.
- 10) Invest in agriculture and forestry research to ensure agribusiness industry economic viability and growth
- 11) Consider strategies to increase the number of agricultural and rural economic development focused graduates from Virginia higher education institutions, including Virginia Tech and Virginia State University.
- 12) Support recruitment/retention of large animal veterinarians in rural Virginia.
- 13) Re-introduce HubZone legislation.

- 14) Establish guidelines that better target under-represented business populations on state procurement contracts to companies that partner with higher education institutions and community non-profit organizations in economically distressed areas.
- 15) Provide meaningful incentives to areas that address economic development needs on a regional, rather than a local, basis.
- 16) Adopt a three-tiered system of preferential tax treatment for employers in economically distressed localities of Virginia.
- 17) Provide clear definition of Economically Distressed Areas so that there are no misunderstandings.

**Next Steps:**

The Subgroup will continue to meet with stakeholders to solicit their ideas and recommendations. Furthermore, we will issue a survey that is being developed to solicit ideas from interested parties. The Economically Distressed Areas Subgroup will meet once again in August to further vet recommendations, followed by our September meeting to finalize list of recommendations to send to the Governor.